

VZCZCXRO6305
RR RUEHAST
DE RUEHTA #1642/01 1660801
ZNR UUUUU ZZH
R 150801Z JUN 07
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 9800
INFO RUEHAST/USOFFICE ALMATY
RUEHC/SECSTATE WASHDC//SCA COLLECTIVE/ 9801
RUEATRS/DEPT OF TREASURY WASH DC//IET//

UNCLAS SECTION 01 OF 02 ASTANA 001642

SIPDIS

STATE FOR INL/AEE (ALTON), INL/C, SCA/CEN (O'MARA)

SIPDIS

E.O. 12958: N/A

TAGS: [SNAR](#) [ASEC](#) [PREL](#) [KCOR](#) [KCRM](#) [PREL](#) [KZ](#)

SUBJECT: KAZAKHSTAN: MONEY LAUNDERING ACCUSATIONS COMPLICATE EFFORTS
TO TAKE EURASIA GROUP PUBLIC

¶1. Summary: The Eurasian Natural Resources Corporation (ENRC), an enormous Kazakhstani metals conglomerate, has been preparing since 2006 to list on the London Stock Exchange. A criminal investigation by Belgian authorities of alleged money laundering by the three billionaires who control 54.6% of ENRC has become an obstacle to the initial public offering (IPO), however. PricewaterhouseCoopers advised the three primary shareholders to quit the company board in light of the allegations. According to press reports, the company's management has postponed the IPO until the second half of 2007 to address the auditing firm's recommendations. End summary.

BACKGROUND

¶2. The Eurasian Natural Resources Corporation (ENRC) is controlled by majority shareholders Patokh Shodiev, Alidjan Ibragimov, and Aleksandr Mashkevich. ENRC is a holding company incorporating large Kazakhstani metallurgical and mining operations, which were formerly part of the Eurasian Industrial Association. The company reports that its activities account for 5% of Kazakhstan's GDP. ENRC produces a range of commodities including coal, iron ore, manganese and bauxite. According to a press release issued by ENRC, it is the world's third-largest producer of ferroalloys, with control over a quarter of global chromium reserves.

¶3. In spring 2006, the trio appeared on Forbes magazine's "richest people" list with a net worth of \$2 billion each. The three billionaires together hold a 56.4% stake in ENRC; the Kazakhstani government owns 24.8%, with 18.8% held by Vladimir Kim, chairman of Kazakhmys, another Kazakhstani mining company.

¶4. Shodiev, known as the "Metallurgical King" of Kazakhstan, has an ambitious plan to prepare ENRC for an IPO and join the ranks of three largest metallurgical companies listed on the London Stock Exchange (LSE). In 2001 he invited Johannes Sittard, a former manager at Mittal Steel, and Dutch lawyers to put ENRC's accounting in order. Under Sittard's management, ENRC is expanding into nickel deposits in the Balkans and cobalt in Zambia.

¶5. ENRC, with a sales volume of \$2.9 billion, is currently valued at \$1.5-2 billion. The Kazakhstani press has speculated that if ENRC sold shares on Kazakhstani Stock Exchange, the company's value might increase to \$3 billion. According to international experts, a listing on the LSE may increase the valuation to \$5 billion or more.

METAL MAGNETS ACCUSED OF MONEY-LAUNDERING

¶6. The "Megapolis" newspaper reported that Shodiev, Ibragimov and Mashkevich are being investigated related to "dirty" funds used in some property transactions in Belgium. The paper reported that the

Belgian law enforcement began an investigation in 1996, and in July 2001 a judge authorized a freeze of several Jersey bank accounts. In an April 2007 hearing at the Brussels Court of First Instance, the judge adjourned the case until June 21.

¶17. The trio also appears in other investigations in Belgium. One of the investigations regards a dispute with a Geneva industrial group "Trans-World" run by billionaire brothers David and Simon Reuben, but has not resulted in any prosecutions. In 1997, the three were also investigated for money laundering and were witnesses in a government audit of Belgian industrial group Tractabel.

BILLIONAIRES TO BE BOOTED FROM THE BOARD?

¶18. As a result of a pre-IPO audit of ENRC requested by the government of Kazakhstan in its capacity as a minority shareholder, PricewaterhouseCooper (PwC) advised Shodiev, Ibragimov, and Mashkevich to quit the company's board because of the outstanding money laundering allegations against them. The confidential 16-page draft document obtained by the Financial Times highlighted areas that the company needs to address ahead of an initial public offering later this year. The three principal shareholders deny the allegations. According to the Financial Times and Kazakhstani press, the main shareholders have not yet decided whether to accept PwC's recommendation that they should not quit the board and therefore board membership for the IPO has not been finalized.

¶19. Comment: Although the current ENRC shareholders reportedly do not see the Belgian investigation as an obstacle to a London IPO, the publicizing of the money laundering charges and of PricewaterhouseCooper recommendations will likely force them to take at least some steps to improve corporate governance before taking

ASTANA 00001642 002 OF 002

the firm public. End comment.

ORDWAY